

VZCZCXRO9201  
PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDF RUEHIK RUEHLH RUEHLN RUEHLZ  
RUEHPW RUEHROV RUEHVK RUEHYG  
DE RUEHAH #1390/01 3600336  
ZNR UUUUU ZZH  
P 260336Z DEC 07  
FM AMEMBASSY ASHGABAT  
TO RUEHC/SECSTATE WASHDC PRIORITY 9928  
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY  
RUCNCIS/CIS COLLECTIVE PRIORITY  
RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY  
RUEHAK/AMEMBASSY ANKARA PRIORITY 3144  
RUEHBJ/AMEMBASSY BEIJING PRIORITY 0959  
RUEHKO/AMEMBASSY TOKYO PRIORITY 0833  
RUEHIT/AMCONSUL ISTANBUL PRIORITY 1407  
RUEKJCS/JOINT STAFF WASHDC PRIORITY  
RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY  
RUEKJCS/SECDEF WASHDC PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RHEFDIA/DIA WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 ASHGABAT 001390

SIPDIS

SENSITIVE  
SIPDIS

STATE FOR SCA/CEN, EUR/RUS, EUR/CARC, EEB  
STATE PLEASE PASS TO USTDA DAN STEIN

E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [TX](#)

SUBJECT: TURKMENISTAN'S 2008 STATE BUDGET: STILL OPAQUE, STILL  
CONFUSING

¶1. (U) Sensitive but unclassified. Not for public Internet.

¶2. (SBU) SUMMARY: The 2008 State Budget that Turkmenistan's President Berdimuhamedov approved on December 14 has grown by 20% in nominal terms to slightly over 123 trillion manats (\$23.7 billion at the official rate). Even at the worst-case-scenario inflation figure of 10% in 2008 predicted by experts, the 2008 budget earmarks significantly more funds than last year, including to local budgets and the social sector. However, in 2008 the Government of Turkmenistan will continue to use numerous off-budgetary funds that accumulate large amounts of foreign exchange to finance public expenditure, particularly big infrastructure projects. END SUMMARY.

TWENTY PERCENT BUDGET INCREASE

¶3. (SBU) The 123 trillion-manat budget represents a 20% nominal growth over the 2007 budget. Even using the least optimistic expert estimates of about 10% inflation in 2008, this is still a significant budget increase. Turkmenistan's own estimate for inflation at the end of 2007 is around 6%.

SAME TWO-TIER BUDGET STRUCTURE

¶4. (SBU) Turkmenistan's budget structure remains confusing because it is difficult to calculate the amount of money spent from the formal budget in overall public spending. The country's public financing includes a two-tier state budget and the Foreign Exchange Reserve Fund (FERF), which is outside the budget.

¶5. (SBU) Tier 1 is tax revenue. Tier 1 revenue finances the government, including local government, law enforcement, education, social welfare, healthcare, and culture ministries and agencies, as well as construction of communal/residential buildings. In the 2008 budget, Tier 1 is around 31 trillion manats, or 25% of the total state budget. Tier 2 is comprised of monetary revenue of various state funds (93 trillion manats in the 2008 budget year, or around 75% of the overall state budget). In 2008, tier 1 expenditure will grow by 19%, while tier 2 expenditure will increase by 20%.

## LOCAL BUDGETS TO GROW

¶6. (SBU) Local budgets are part of Tier 1. The projected local revenue that comes from insignificant local duties and a percentage of the Value Added Tax (VAT), Corporate Income Tax and Mineral Resources Tax is not sufficient to finance planned local public expenditure. Unlike 2007, the government in 2008 will return to an earlier practice of subventing local budgets. The 2008 subventions will equal about 2 trillion manats, which would increase local budgets by nominal 28% over that of 2007.

## TIER TWO AND SINGLE EXCHANGE RATE

¶7. (SBU) Tier 2 consists of almost a dozen state off-budgetary funds that rely heavily on large volumes of foreign exchange purchased at the official subsidized rate. Thus an elimination of tier 2 (i.e. state off-budgetary funds) is inherently linked with a unification and potential depreciation of the official exchange rate (currently 5,200 manats)[NOTE: Other significant foreign exchange amounts are generated in the Foreign Exchange Reserve Fund, FERF. END NOTE]. Although such depreciation would increase budgetary revenues, the Government is not willing, at least in 2008, to move off-budgetary public operations to the budget and increase the manat cost of off-budgetary government spending.

## DEFICIT

¶8. (SBU) The 123 trillion-manat budget provides for a deficit of 5.2 trillion (\$1 billion at the official exchange rate of 5,200 manat per dollar). According to the published budget, this deficit will be financed from the surplus budget funds from previous years. The 2006 budget surplus stood at 6.2 trillion manat.

ASHGABAT 00001390 002 OF 002

¶9. (SBU) COMMENT: The budget continues to lack transparency and clarity, and misrepresents real spending patterns. Elimination of the Tier 2 budget could have been an important step towards unification of the exchange rate. Whether the Government of Turkmenistan is genuinely planning to move toward a single exchange rate, or simply lacks expertise remains a question. Technical support from the U.S. Treasury could help Turkmenistan design an appropriate strategy. END SUMMARY.

HOAGLAND